



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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January 8, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY FOR THE YEAR
ENDED JUNE 30, 2014**

California Government Code Section 26920 requires annual audits of the assets in the County Treasury, with an opinion on whether the Treasurer's Statement of Assets (i.e., Statement of Net Position) is presented fairly and in accordance with generally accepted accounting principles. We contracted with an independent Certified Public Accounting firm, BCA Watson Rice LLP (BCA), to audit the financial statements of the Los Angeles County Treasury for the year ended June 30, 2014. BCA conducted the audit under the Auditor-Controller's Master Agreement.

BCA issued an unqualified opinion on the Treasurer's financial statements, indicating the statements are presented fairly and in conformity with accounting principles generally accepted in the United States of America (Attachment).

As part of the audit, BCA reviewed the Treasurer's internal controls over financial reporting and did not identify any deficiencies that they consider to be material weaknesses. BCA tested the Treasurer's compliance with legal provisions, regulations, contracts, and other matters. BCA noted no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS:MP

Attachment

c: Sachi A. Hamai, Interim Chief Executive Officer
Joseph Kelly, Treasurer and Tax Collector
Public Information Office
Audit Committee



Los Angeles County Treasury
Management's Discussion and Analysis and Financial
Statements with Independent Auditor's Report
June 30, 2014



LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS AND
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Treasury's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Treasury, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the statements of the Treasury are intended to present the financial position and changes in financial position of only the Treasury. They do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014 on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Treasury's internal control over financial reporting and compliance.

Los Angeles, California
November 14, 2014

BCA Watson Rice LLP

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)

The Los Angeles County Treasurer and Tax Collector (Treasury) maintains two investment portfolios, the External Investment Pool (Pool) and the Specific Purpose Investment (SPI) portfolio. The Treasury manages the Pool on behalf of Pool participants through the authority delegated to it annually by the Los Angeles County Board of Supervisors. The primary objective of the Treasury's Investment Policy is to ensure the safety of principal. The secondary objective is to meet the liquidity needs of the Pool participants. The third objective is to achieve a return on funds invested. The Treasury accomplishes these objectives through the purchase of high quality fixed income investments, held to a designated maturity.

Mandatory Pool participants include the County of Los Angeles (County), local school and community college districts within the County and the Superior Courts. Voluntary participants in the Pool consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. There were approximately 2,000 Pool participants for the year ended June 30, 2014. The Treasury also maintains a SPI portfolio to manage specific investment objectives of certain Pool participants and voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

Other Specific Investments represent assets held by the Treasury, in a custodial capacity, pursuant to Section 1300.76.1, Title 28, California Code of Regulations (State Code).

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the year ended June 30, 2014. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2014.

Financial Highlights

- The Pool's total net position at June 30, 2014, was \$21.21 billion, a decrease of \$1.69 billion (7.37%) from June 30, 2013.
- The Pool had no trades payable at June 30, 2014, a decrease of \$75 million (100.00%) from June 30, 2013. Trades payable decreased because of changes in the market conditions making it less beneficial to invest in securities settling at a future date.
- The interest income of the Pool decreased \$2.78 million (1.69%) from \$164.46 million for the year ended June 30, 2013, to \$161.68 million for the year ended June 30, 2014. The decrease in interest income was primarily due to a slight decline in market yield during the year ended June 30, 2014 and to the maturity of older investments with higher yields.
- The Pool's net change in fair value of investments was an increase of \$83.90 million for the year ended June 30, 2014, compared to a decrease of \$252.66 million for the year ended June 30, 2013. The increase is due to changes in the market conditions during the year ended June 30, 2014 compared to the year ended June 30, 2013 in which market interest rates spiked considerably higher in the last quarter, thus lowering the market value of the portfolio.
- The Pool's allowable investment expenses totaled \$10.81 million for the year ended June 30, 2014. This represented approximately 4.61 basis points of the average daily cash balance for the year ended June 30, 2014.

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Treasury's basic financial statements. The Treasury's basic financial statements consist of two components:

- 1-A) Statement of Net Position, 1-B) Statement of Changes in Net Position
- 2) Notes to the Basic Financial Statements

The Statement of Net Position presents information on the assets plus deferred outflow of resources and liabilities plus deferred inflow of resources of the Pool, SPI and Other Specific Investments. The difference between the assets plus deferred outflow of resources and liabilities plus deferred inflow of resources is reported as net position. There were no deferred outflow and inflow of resources for the year ended June 30, 2014.

The Statement of Changes in Net Position presents information on how the net position of the Pool, SPI and Other Specific Investments changed during the year ended June 30, 2014.

Statement of Net Position

The Pool's net position was \$21.21 billion at June 30, 2014, a decrease of \$1.69 billion (7.37%) from June 30, 2013. The SPI net position was \$132.47 million, an increase of \$42.47 million (47.19%) from the prior year. The Other Specific Investments net position remained unchanged at \$302 thousand.

The Pool had no trades payable at June 30, 2014, a decrease of \$75 million (100.00%) from June 30, 2013. The decrease was due to changes in market conditions making it less beneficial to invest in securities settling at a future date. The SPI had no trades payable at June 30, 2014, a decrease of \$40 million (100%) from June 30, 2013.

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Net Position

A comparative condensed summary of the net position for the Pool, SPI and Other Specific Investments is presented below:

| Statement of Net Position External Investment Pool (In Thousands) | | | | |
|---|---------------|---------------|-------------------------------|------------|
| | 2014 | 2013 | Increase/(Decrease) Amount | Percentage |
| Assets | | | | |
| Cash | \$ 195,368 | \$ 70,226 | \$ 125,142 | 178.20% |
| Investments at Fair Value | 20,985,179 | 22,869,383 | (1,884,204) | -8.24% |
| Interest Receivable | 28,210 | 31,763 | (3,553) | -11.19% |
| Total Assets | 21,208,757 | 22,971,372 | (1,762,615) | -7.67% |
| Liabilities | | | | |
| Trades Payable | - | 75,000 | (75,000) | -100.00% |
| Total Liabilities | - | 75,000 | (75,000) | -100.00% |
| Net Position | \$ 21,208,757 | \$ 22,896,372 | \$(1,687,615) | -7.37% |

| Statement of Net Position Specific Purpose Investments (In Thousands) | | | | |
|---|------------|------------|-------------------------------|------------|
| | 2014 | 2013 | Increase/(Decrease) Amount | Percentage |
| Assets | | | | |
| Investments at Fair Value | \$ 131,965 | \$ 129,620 | \$ 2,345 | 1.81% |
| Interest Receivable | 509 | 380 | 129 | 33.95% |
| Total Assets | 132,474 | 130,000 | 2,474 | 1.90% |
| Liabilities | | | | |
| Trades Payable | - | 40,000 | (40,000) | 100.00% |
| Total Liabilities | - | 40,000 | (40,000) | 100.00% |
| Net Position | \$ 132,474 | \$ 90,000 | \$ 42,474 | 47.19% |

| Statement of Net Position Other Specific Investments (In Thousands) | | | | |
|---|--------|--------|-------------------------------|------------|
| | 2014 | 2013 | Increase/(Decrease) Amount | Percentage |
| Assets | | | | |
| Investments at Fair Value | \$ 302 | \$ 302 | \$ - | 0.00% |
| Total Assets | 302 | 302 | - | 0.00% |
| Net Position | \$ 302 | \$ 302 | \$ - | 0.00% |

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)

Changes in Net Position

The additions include contributions by the Pool participants, investment income and changes in the fair value of investments. Investment expenses are shown as a deduction to additions to the Pool and to the SPI. Deductions represent distributions to Pool participants.

Pool

- Contributions by the Pool Participants were \$53.41 billion for the year ended June 30, 2014, a decrease of \$2.74 billion (4.87%) from the prior year.
- The interest income of the Pool decreased \$2.78 million (1.69%) from \$164.46 million for the year ended June 30, 2013, to \$161.68 million for the year ended June 30, 2014. The decrease in interest income was primarily due to a slight decline in market yield during the year ended June 30, 2014 and to the maturity of older investments with higher yields. The average daily investment balance increased from \$22.73 billion in the prior year ended June 30, 2013, to \$23.21 billion in the current year.
- The Pool's investment expenses, which are deducted from Investment Income, were \$10.81 million for the year ended June 30, 2014, an increase of \$132 thousand (1.24%) from the prior year. This increase was primarily due to an increase in the Treasury's expenses. The \$10.81 million in total investment expenses represented approximately 4.61 basis points of the average daily cash balance for the year ended June 30, 2014.
- The Pool's net change in fair value of investments was an increase of \$83.90 million for the year ended June 30, 2014, compared to a decrease of \$252.66 million for the year ended June 30, 2013. The increase is due to the changes in the market conditions during the year ended June 30, 2014 compared to the year ended June 30, 2013 in which market interest rates spiked considerably higher in the last quarter, thus lowering the market value of the portfolio.
- Distributions to Pool participants were \$55.33 billion for the year ended June 30, 2014, an increase of \$769.32 million (1.41%) from the prior year.

SPI

- Contributions by SPI participants were \$696.45 million for the year ended June 30, 2014, a decrease of \$556.11 million (44.40%) from the prior year. The decrease was primarily due to a decrease in contributions by the Sanitation Districts.
- SPI interest income increased by \$616 thousand (40.82%) from the prior year. The increase was primarily due to the income earned by the Sanitation Districts and South Coast Air Quality Management District on new investments made during the year ended June 30, 2014.
- The SPI's net change in fair value of investments was an increase of \$257 thousand for the year ended June 30, 2014, compared to a decrease of \$2.31 million for the year ended June 30, 2013. The increase is due to the changes in the market conditions during the year ended June 30, 2014 compared to the year ended June 30, 2013 in which market interest rates spiked considerably higher in the last quarter, thus lowering the market value of the portfolio.

**LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

- Distributions to the SPI participants of \$656.30 million were approximately \$609.08 million (48.13%) lower than the prior year's figure of \$1.27 billion. The decrease in distributions is primarily due to the decrease in distributions to Sanitation Districts.

Other Specific Investments

- There were no new contributions by participants during the year ended June 30, 2014.
- Distributions to participants were approximately \$0.26 thousand during the years ended June 30, 2014 and 2013.

All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, additions and deductions are reported in this statement for some items that will result in cash flows only in future fiscal periods.

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)

A summary of the changes in net position for the Pool, SPI and Other Specific Investments is presented below:

| Statement of Changes in Net Position External Investment Pool (In Thousands) | | | | | |
|--|---------------|---------------|---------------------|------------|--|
| | 2014 | 2013 | Increase/(Decrease) | | |
| | | | Amount | Percentage | |
| Additions: | | | | | |
| Contributions by Participants | \$ 53,408,991 | \$ 56,145,004 | \$ (2,736,013) | -4.87% | |
| Investment Income: | | | | | |
| Interest Income | 161,681 | 164,460 | (2,779) | -1.69% | |
| Investment Expenses | (10,808) | (10,676) | (132) | 1.24% | |
| Net Increase (Decrease) in Fair Value of Investments | 83,899 | (252,661) | 336,560 | 133.21% | |
| Net Investment Income (Loss) | 234,772 | (98,877) | 333,649 | 337.44% | |
| Total Additions | 53,643,763 | 56,046,127 | (2,402,364) | -4.29% | |
| Deductions: | | | | | |
| Distributions to Participants | 55,331,378 | 54,562,056 | 769,322 | 1.41% | |
| Net Increase (Decrease) in Net Position | (1,687,615) | 1,484,071 | (3,171,686) | -213.72% | |
| Net Position, Beginning of Year | 22,896,372 | 21,412,301 | 1,484,071 | 6.93% | |
| Net Position, End of Year | \$ 21,208,757 | \$ 22,896,372 | \$ (1,687,615) | -7.37% | |

| Statement of Changes in Net Position Specific Purpose Investments (In Thousands) | | | | | |
|--|------------|--------------|---------------------|------------|--|
| | 2014 | 2013 | Increase/(Decrease) | | |
| | | | Amount | Percentage | |
| Additions: | | | | | |
| Contributions by Participants | \$ 696,445 | \$ 1,252,557 | \$ (556,112) | -44.40% | |
| Investment Income: | | | | | |
| Interest Income | 2,125 | 1,509 | 616 | 40.82% | |
| Investment Expenses | (58) | (42) | (16) | 38.10% | |
| Net Increase (Decrease) in Fair Value of Investments | 257 | (2,311) | 2,568 | 111.12% | |
| Net Investment Income (Loss) | 2,324 | (844) | 3,168 | 375.36% | |
| Total Additions | 698,769 | 1,251,713 | (552,944) | -44.17% | |
| Deductions: | | | | | |
| Distributions to Participants | 656,295 | 1,265,379 | (609,084) | -48.13% | |
| Net Increase (Decrease) in Net Position | 42,474 | (13,666) | 56,140 | 410.80% | |
| Net Position, Beginning of Year | 90,000 | 103,666 | (13,666) | -13.18% | |
| Net Position, End of Year | \$ 132,474 | \$ 90,000 | \$ 42,474 | 47.19% | |

LOS ANGELES COUNTY TREASURY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014
(UNAUDITED)

| Statement of Changes in Net Position Other Specific Investments (In Thousands) | | | | | |
|--|--------|--------|---------------------|------------|-------|
| | 2014 | 2013 | Increase/(Decrease) | | |
| | | | Amount | Percentage | |
| Additions: | | | | | |
| Investment Income | \$ - | \$ - | \$ - | - | 0.00% |
| Net Increase in Fair Value of Investments | 1 | 1 | - | - | 0.00% |
| Net Investment Income | 1 | 1 | - | - | 0.00% |
| Total Additions | 1 | 1 | - | - | 0.00% |
| Deductions: | | | | | |
| Distributions to Participants | 1 | 1 | - | - | 0.00% |
| Net Increase (Decrease) in Net Position | - | - | - | - | 0.00% |
| Net Position, Beginning of Year | 302 | 302 | - | - | 0.00% |
| Net Position, End of Year | \$ 302 | \$ 302 | \$ - | - | 0.00% |

Request for Information

This financial report is designed to provide a general overview of the Treasury's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Los Angeles County Treasurer and Tax Collector, 500 West Temple Street, Room 437, Los Angeles, California 90012-2766.

LOS ANGELES COUNTY TREASURY
STATEMENT OF NET POSITION
JUNE 30, 2014
(In Thousands)

| | External Investment Pool | Specific Purpose Investments | Other Specific Investments |
|------------------------------------|--------------------------------|------------------------------------|----------------------------------|
| Assets | | | |
| Treasurer Cash | \$ 195,368 | \$ - | \$ - |
| Investments: | | | |
| Commercial Paper | 5,790,368 | - | - |
| Corporate and Deposit Notes | 185,056 | 1,519 | - |
| Local Agency Investment Fund | - | 49,199 | - |
| Los Angeles County Securities | 7,000 | 4,810 | - |
| Negotiable Certificates of Deposit | 2,996,383 | - | - |
| U.S. Agency Securities | 11,058,737 | 76,341 | - |
| U.S. Treasury Securities: | | | |
| U.S. Treasury Notes | 347,772 | - | - |
| U.S. Treasury Bills | 599,863 | - | 302 |
| U.S. Treasury Bonds | - | 96 | - |
| Total Investments | 20,985,179 | 131,965 | 302 |
| Interest Receivable | 28,210 | 509 | - |
| Total Assets | 21,208,757 | 132,474 | 302 |
| Liabilities | | | |
| Trades Payable | - | - | - |
| Total Liabilities | - | - | - |
| Total Net Position Held in Trust | \$ 21,208,757 | \$ 132,474 | \$ 302 |

The accompanying notes are an integral part of these financial statements.

LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014
(In Thousands)

| | External Investment Pool | Specific Purpose Investments | Other Specific Investments |
|---|--------------------------------|------------------------------------|----------------------------------|
| ADDITIONS: | | | |
| Contributions by Pool Participants | \$ 53,408,991 | \$ 696,445 | \$ - |
| Investment Income: | | | |
| Interest Income | 161,681 | 2,125 | - |
| Investment Expenses | (10,808) | (58) | - |
| Net Increase in Fair Value of Investments | 83,899 | 257 | 1 |
| Net Investment Income | 234,772 | 2,324 | 1 |
| Total Additions | 53,643,763 | 698,769 | 1 |
| DEDUCTIONS: | | | |
| Distributions to Pool Participants | 55,331,378 | 656,295 | 1 |
| Net Increase (Decrease) in Net Position | (1,687,615) | 42,474 | - |
| Net Position, Beginning of Year | 22,896,372 | 90,000 | 302 |
| Net Position, End of Year | \$ 21,208,757 | \$ 132,474 | \$ 302 |

The accompanying notes are an integral part of these financial statements.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investments (SPI) portfolio with approximately \$21.21 billion and \$132.47 million, respectively, in net position as of June 30, 2014. The Treasury also maintains Other Specific Investments totaling approximately \$302 thousand at June 30, 2014. The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the Treasury in accordance with Section 53607 of the California Government Code. On an annual basis, the Board delegates the investment authority to the Treasury.

External Investment Pool

The Pool is managed by the Treasury on behalf of the Pool participants that include the County of Los Angeles (County) and other entities that are required by State statutes to participate in the Pool such as, local school districts, community colleges and the Superior Courts. Voluntary participants in the Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain other municipal agencies. The purpose of the Pool is to provide safe, liquid investment opportunities for pooled surplus funds deposited into the Treasury. Net Earnings on Pool investments are allocated monthly to Pool participants by the County Auditor-Controller based upon each participant's average daily cash balance in the allocation period. Investment gains and losses are proportionately shared by participants as an increase or reduction in investment, net of investment expenses. Section 27013 of the California Government Code authorizes the Treasury to deduct certain Treasury-related administrative fees. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Specific Purpose Investments

The Treasury maintains the SPI portfolio to manage specific investments requested by specific entities with the approval of the Treasury. Investment income/loss distribution is credited/debited to the specific entity for which the investment was made.

Other Specific Investments

Other Specific Investments represents assets held by the Treasury pursuant to Section 1300.76.1, Title 28, California Code of Regulations (State Code). The investments are held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.

Treasury's Investment Strategy

The Treasury's investment strategy is based on three prioritized objectives. The primary objective is to ensure the safety of principal, the secondary objective is to provide sufficient cash to meet disbursement

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

needs and the third objective is to achieve a return. The cash flow needs of the Pool participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The Treasury's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

The SPI portfolio is used to account for the net position of individual investment accounts, in aggregate. The related investment activity occurs separately from the Pool and is provided as a service to Pool participants and external public entities. The individual investment strategies are targeted for the needs of the requesting entity.

The Other Specific Investments are used to account for the assets placed with the Treasury pursuant to State Code. The investment activity occurs separately from the County's Pool and the related investment strategies are governed by State Code.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying basic financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The accompanying basic financial statements present only the statement of net position and statement of changes in net position of the Pool, SPI and Other Specific Investments, and are not intended to present fairly, the financial position and changes in financial position of the County of Los Angeles as a whole in conformity with U.S. generally accepted accounting principles. Contributions from pool participants are recognized as contributions in the period in which they are received. Distributions to pool participants are recognized in the period in which they are distributed.

Earnings on investments are recognized as revenue in the period in which they are earned and investment costs are recognized as an expense when incurred, regardless of the timing of related cash flows. In accordance with generally accepted accounting principles (GAAP), the Treasury records investment purchases and sales on the trade date. In accordance with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of investments. Fair value is determined monthly. Special disclosures related to GASB 31 appear in Note 3. Pool participants' cash balances and withdrawals are based on amortized cost. The Treasury has prepared its deposit and investments disclosures in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3. The related disclosures appear in Note 3.

Trades Payable

Trades payable represents the purchase of investments by the Treasury where payment has not been made as of June 30, 2014. There were no trades payables for the Pool and SPI at June 30, 2014.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 1 - Summary of Significant Accounting Policies (Continued)

Trades Receivable

Trades receivable represents securities that have been called but have not settled at June 30, 2014. There was no trades receivable for the Pool and SPI at June 30, 2014.

Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from the estimates.

New Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The statement is effective for periods beginning after December 15, 2012 and did not have an impact on the Treasury's financial statements for fiscal year 2014.

Note 2 – Treasurer Cash

As of June 30, 2014, the Treasury maintained accounts in five banks. The carrying amount of the Treasury's total deposits in financial institutions was \$195.05 million plus \$0.32 million in cash in the Treasury's vault.

Under California Government Code Section 53652, each financial institution in California is required to pledge a pool of securities as collateral against all of its public deposits. California Government Code Section 53651 delineates the types of eligible securities, and the required collateral percentage, generally at 110%. In addition, under California Government Code Section 53653, the Treasury has discretion to waive security for the portion of any deposits as insured pursuant to federal law. Through contractual agreement, the Treasury has opted to waive security for the portion of deposits which is federally insured.

The total balance of deposits in financial institutions was covered by federal depository insurance or collateralized with securities monitored by the Local Agency Security Program (LASD) of California Department of Financial Institutions. LASD confirmed that the pools of collateral related to the County Treasury's deposits were maintained at required levels as of June 30, 2014.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 3 – Investments

California Government Code Sections 53601 and 53635 authorize the Treasury to invest the Pool and SPI funds (Note 1) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, mortgage-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation (S&P) or P-1 by Moody's, negotiable certificates of deposit, medium-term notes, corporate notes, repurchase agreements, reverse repurchase agreements, time deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, shares of beneficial interest issued by diversified management companies known as money market mutual funds (MMF) registered with the Securities and Exchange Commission, the State of California's Local Agency Investment Fund (LAIF), and guaranteed investment contracts. As permitted by the California Government Code, the Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the Treasury which reports investment activity to the Board on a monthly basis. The Treasury also maintains Other Specific Investments which are invested pursuant to State Code.

Investments are stated at fair value, except for certain non-negotiable securities that are reported at cost, which approximates to fair value, because they are not transferable and have terms that are not affected by changes in market interest rates, such as mortgage trust deeds, Los Angeles County securities, and investments in the LAIF. The fair value of investments is determined monthly and is provided by the custodian bank. The method used to determine the value of participant's equity withdrawn is based on the book value, which is the amortized cost, of the participant's percentage participation on the date of such withdrawals.

Investments in LAIF are governed by the California Government Code and overseen by a five member Local Investment Advisory Board as designated by the California Government Code. As of June 30, 2014, the total amount invested by all California local governments and special districts in LAIF was \$21.12 billion. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2014 had a balance of \$64.85 billion. The PMIA is not SEC registered, but is required to invest according to the California Government Code. Included in the PMIA's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities totaling \$1.21 billion at June 30, 2014. Collectively, these represent 1.09% of the PMIA balance of \$64.85 billion. The SPI holdings in the LAIF investment pool as of June 30, 2014, were \$49.20 million, which were valued using a fair value factor provided by LAIF.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 3 – Investments (Continued)

The table below identifies the investment types that are authorized by the County, along with the related concentration of credit limits:

| Authorized Investment Type | Maximum Maturity | | Maximum Percentage of Portfolio | | Maximum Investment In One Issuer | | Minimum Rating | |
|--------------------------------------|------------------|-------------|---------------------------------|------------------|----------------------------------|---------------|----------------|-------------|
| | Gov. Code | Pool Policy | Gov. Code | Pool Policy | Gov. Code | Pool Policy | Gov. Code | Pool Policy |
| U.S. Treasury Notes, Bills and Bonds | 5 years | None (1) | None | None | None | None | None | None |
| U.S. Agency Securities | 5 years | None (1) | None | None | None | None | None | None |
| Local Agency Obligations | 5 years | 5 years (2) | None | 10% | None | 10% | None | None (2) |
| Bankers' Acceptances | 180 days | 180 days | 40% | 40% | 30% | \$750 million | None | P-1 |
| Commercial Paper | 270 days | 270 days | 40% | 40% | 10% | \$1.5 billion | A-1/P-1 | A-1/P-1 |
| Certificate of Deposits (3) | 5 years | 3 years | 30% | 30% | None | \$750 million | None | P-1/A |
| Corporate Medium-Term Notes (4) | 5 years | 3 years | 30% | 30% | None | \$750 million | A | A-1/P-1/A |
| Repurchase Agreement | 1 year | 30 days | None | \$1 billion | None | \$500 million | None | None |
| Reverse Repurchase Agreement | 92 days | 92 days | 20% | \$500 million | None | \$250 million | None | None |
| Securities Lending Agreements | 92 days | 92 days | 20% | 20% (5) | None | None | None | None |
| Money Market Mutual Funds | N/A | N/A | 20% | 15% | 10% | 10% | AAA | AAA |
| LAIF | N/A | N/A | None | \$50 million (6) | None | None | None | None |
| Asset-Back Securities | 5 years | 5 years | 20% | 20% | None | \$750 million | AA | AA (7) |

- (1) Pursuant to the California Government Code 53601, the Board granted authority to make investments in U.S. Treasury Notes, Bills and Bonds, and U.S. Agency Securities that have maturities beyond 5 years.
- (2) Any obligation issued or caused to be issued on behalf of other County affiliates must have a minimum rating of A3 (Moody's) or A- (S&P) and the maximum maturity is limited to thirty years. All other Local Agencies are limited to 5 years.
- (3) Euro Certificate of Deposits are further restricted to a maximum maturity of one year and a maximum percentage of portfolio of 10%.
- (4) Floating Rate Notes are further restricted to a maximum maturity of five years, maximum of 10% of the portfolio, and maximum investment in one issuer of \$750 million. The maximum maturity may be seven years, provided that the Board's authorization to exceed maturities in excess of five years is in effect, of which \$100 million par value may be greater than five years to maturity.
- (5) The maximum par value is limited to a combined total of reverse repurchase agreements and securities lending agreements of 20% of the base value of the portfolio.
- (6) The maximum percentage of the portfolio is based on the investment limit established by LAIF for each account, not by Pool Policy. Bond proceeds are considered a one-time deposit, have no maximum deposit amount, and are maintained on thirty-day increments.
- (7) All Asset-Backed securities must be rated at least "AA" and the issuer's corporate debt rating must be at least "A".

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 3 – Investments (Continued)

Risk Disclosures

As of June 30, 2014, the major classes of the investments consisted of the following (in thousands):

| <u>Pool</u> | <u>Fair Value</u> | <u>Principal</u> | <u>Interest Rate</u> <u>Range</u> | <u>Maturity Range</u> | <u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Years</u> |
|------------------------------------|----------------------|----------------------|--------------------------------------|-----------------------|---|
| Commercial Paper | \$ 5,790,368 | \$ 5,790,408 | 0.11% - 0.22% | 07/01/14 - 09/22/14 | 0.05 |
| Corporate and Deposit Notes | 185,056 | 185,057 | 0.21% - 2.15% | 12/29/14 - 10/11/16 | 0.98 |
| Los Angeles County Securities | 7,000 | 7,000 | 0.55% | 06/30/16 | 2.00 |
| Negotiable Certificates of Deposit | 2,996,383 | 2,996,584 | 0.11% - 1.18% | 07/01/14 - 04/18/16 | 0.22 |
| U.S. Agency Securities | 11,058,737 | 11,151,284 | 0.13% - 6.50% | 07/23/14 - 12/17/19 | 3.63 |
| U.S. Treasury Securities: | | | | | |
| U.S. Treasury Notes | 347,772 | 347,634 | 0.63% - 2.38% | 08/31/14 - 04/30/18 | 2.34 |
| U.S. Treasury Bills | 599,863 | 599,686 | 0.11% - 0.13% | 11/13/2014 - 03/05/15 | 0.44 |
| Total Investments | <u>\$ 20,985,179</u> | <u>\$ 21,077,653</u> | | | <u>2.01</u> |

| <u>SPI</u> | <u>Fair Value</u> | <u>Principal</u> | <u>Interest Rate</u> <u>Range</u> | <u>Maturity Range</u> | <u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Years</u> |
|-------------------------------|-------------------|-------------------|--------------------------------------|-----------------------|---|
| Local Agency Investments Fund | \$ 49,199 | \$ 49,184 | 0% - 6.00% | 07/01/14 - 06/25/39 | 0.64 |
| Corporate and Deposit Notes | 1,519 | 1,510 | 3.75% | 11/14/14 | 0.38 |
| Los Angeles County Securities | 4,810 | 4,810 | 5.00% | 09/02/21 | 7.18 |
| U.S. Agency Securities | 76,341 | 77,852 | 0.50% - 3.24% | 08/26/16 - 05/30/28 | 6.53 |
| U.S. Treasury Securities: | | | | | |
| U.S. Treasury Bonds | 96 | 85 | 7.25% | 05/15/16 | 2.11 |
| Total Investments | <u>\$ 131,965</u> | <u>\$ 133,441</u> | | | <u>4.14</u> |

| <u>Other Specific Investments</u> | <u>Fair Value</u> | <u>Principal</u> | <u>Interest Rate</u> <u>Range</u> | <u>Maturity Range</u> | <u>Weighted</u> <u>Average</u> <u>Maturity</u> <u>in Years</u> |
|-----------------------------------|-------------------|------------------|--------------------------------------|-----------------------|---|
| U.S. Treasury Bills | \$ 302 | \$ 302 | 0.05% | 12/04/14 | 0.43 |
| Total Investments | <u>\$ 302</u> | <u>\$ 302</u> | | | <u>0.43</u> |

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 3 – Investments (Continued)

Interest Rate Risk

The Treasury manages the Pool's exposure to declines in fair value by limiting its weighted average maturity target to a range between 1.0 and 2.0 years, in accordance with the Investment Policy. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the stated maturity.

46.91% of the Pool's \$20.99 billion in investments at June 30, 2014, mature in six months or less. Of the remainder, 50.46% have a maturity of more than one year. At June 30, 2014, the weighted average maturity in years for the Pool was 2.01.

The California Government Code and the Investment Policy allow the Treasury to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate. The Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Investment Policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the year ended June 30, 2014, there were none.

At June 30, 2014, the Pool contained floating rate notes at fair value of \$487.45 million (2.32% of the Pool). The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis. There were several variable rate notes at fair value of \$8.03 million in the SPI and no variable rate notes in the Other Specific Investments.

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolios is adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the Treasury will not be able to recover the value of investment securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Treasury and are held by either the counterparty, or the counterparty's trust department or agent but not in the Treasury's name. At year-end, all Pool, SPI and Other Specific Investment securities, except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, LAIF and mortgage trust deeds, were either held by the Treasury or by the custodian bank in the name of the Treasury. The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by Bank of America. The LAIF investments were held by the State of California.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 3 – Investments (Continued)

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The County mitigates these risks by holding a diversified portfolio of high quality investments.

The Investment Policy establishes acceptable credit ratings for investments from any two Nationally Recognized Statistical Rating Organizations (NRSRO). For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's), while an issuer of long term debt shall be rated no less than an "A." All investments purchased during the year ended June 30, 2014 met the credit rating criteria in the Investment Policy, at the issuer level. However, while the NRSROs did rate the issuer of the investments purchased, the NRSRO did not, in all instances, rate the investment itself (e.g., commercial paper, bankers' acceptance, corporate and deposit notes, and negotiable certificates of deposit). Accordingly, for purposes of reporting the credit quality distribution of investments in the table shown on page 20, some investments are reported as not rated.

The Investment Policy also permits investments in LAIF, pursuant to California Government Code Section 16429.1. At June 30, 2014, a portion of the SPI was invested in LAIF, which is unrated as to credit quality.

The Investment Policy, approved annually by the Board, limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the Pool portfolio. Exceptions to this are obligations of the United States government, and United States government agencies or government-sponsored enterprises, which do not have a limit. Further, the Treasury restricts investments in any one issuer based on the issuer's ratings from a NRSRO. For bankers' acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was \$750 million, approximately 3.57% of the Pool's investment balance at June 30, 2014. For commercial paper, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was \$1.5 billion, or 7.15% of the Pool's investment balance as of June 30, 2014.

The Pool and SPI had the following U.S. Agency securities in a single issuer that represent 5 percent or more of total investments at June 30, 2014, (in thousands):

| Issuer | Pool | | SPI | |
|--|--------------|----------------|------------|----------------|
| | Fair Value | % of Portfolio | Fair Value | % of Portfolio |
| Federal Farm Credit Bank | \$ 2,313,376 | 11.02% | \$ 30,830 | 23.36% |
| Federal Home Loan Bank | 3,494,686 | 16.65% | 14,092 | 10.68% |
| Federal Home Loan Mortgage Corporation | 2,364,580 | 11.27% | 23,414 | 17.74% |
| Federal National Mortgage Association | 2,886,094 | 13.75% | 8,005 | 6.07% |

**LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

Note 3 – Investments (Continued)

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2014:

| <u>Pool</u> | <u>S&P</u> | <u>Moody's</u> | <u>% of Portfolio</u> |
|------------------------------------|----------------|----------------|-----------------------|
| Commercial Paper | Not Rated | Not Rated | 27.59% |
| Corporate and Deposit Notes | AA- | Aa3 | 0.35% |
| | AA | Aa3 | 0.12% |
| | AA+ | A1 | 0.41% |
| Los Angeles County Securities | Not Rated | Not Rated | 0.03% |
| Negotiable Certificated of Deposit | AA- | Aa3 | 0.48% |
| | Not Rated | Aa2 | 0.71% |
| | Not Rated | Not Rated | 13.09% |
| U.S. Agency Securities | AA+ | Aaa | 48.50% |
| | Not Rated | Aaa | 0.24% |
| | AA+ | Not Rated | 0.62% |
| | Not Rated | Not Rated | 3.34% |
| U.S. Treasury Securities: | | | |
| U.S. Treasury Notes | Not Rated | Aaa | 1.66% |
| U.S. Treasury Bills | Not Rated | Not Rated | 2.86% |
| | | | <u>100.00%</u> |
| <u>SPI</u> | | | |
| Local Agency Investment Fund | Not Rated | Not Rated | 37.27% |
| Corporate and Deposit Notes | AA+ | A1 | 1.15% |
| Los Angeles County Securities | Not Rated | Not Rated | 3.65% |
| U.S. Agency Securities | AA+ | Aaa | 40.21% |
| | AA+ | Not Rated | 17.65% |
| U.S. Treasury | | | |
| U.S. Treasury Bonds | Not Rated | Aaa | 0.07% |
| | | | <u>100.00%</u> |
| <u>Other Specific Investments</u> | | | |
| U.S. Treasury Bills | Not Rated | Not Rated | 100.00% |
| | | | <u>100.00%</u> |

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 3 – Investments (Continued)

Safekeeping Securities

At June 30, 2014, all Pool, SPI investments and Other Specific Investments were safe kept by Citibank N.A., except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, LAIF and mortgage trust deeds.

The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by Bank of America.

The County has not provided nor obtained any legally binding guarantees during the year ended June 30, 2014, to support the value of shares in the Pool.

Investment Income

The earnings rate, which includes investment income, net of allowable investment expenses, on all Pool investments held by the Treasury for the year ended June 30, 2014, was 0.64% on an average daily investment balance of the Pool portfolio of \$23.21 billion.

Investment expenses allocated by the County to the Pool include custodial bank fees, rating agencies fees, banking fees, as well as administrative costs such as salaries and benefits, services and supplies, overhead and equipment totaling \$10.81 million for the year ended June 30, 2014.

The change in fair value of investments consists of both unrealized and realized gains and losses. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of \$1.50 billion in the Pool and \$653.71 million in the SPI were called or sold, respectively, during the year with a net gain of \$1.53 million for the Pool and a net loss of \$294 thousand for the SPI, respectively. The net increase in the fair value of investments for the year ended June 30, 2014, was \$83.90 million for the Pool and a net increase of \$257 thousand for the SPI. There was a net increase of \$256 in the fair value of investments for the Other Specific Investments for the year ended June 30, 2014.

Note 4 – Interest Receivable

Interest receivables consist of interest accrued on investments including interest purchased with certain securities. At June 30, 2014, the Pool had \$28.21 million of interest receivable of which \$59 thousand represents accrued interest purchased. At June 30, 2014, the SPI portfolio had \$509 thousand of interest receivable of which \$4 thousand represents accrued interest purchased.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 5 – Related Party

Los Angeles County Securities – External Investment Pool

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANs for the Pool, which are floating rate notes. The LACCAL BANs comprised 1.43% of the total floating rate notes as of June 30, 2014. LACCAL is a nonprofit corporation established by the Board to issue tax-exempt bonds to finance the purchase of certain equipment on behalf of the County. The BANs were created to provide LACCAL with operating cash prior to the sale of financing bonds. LACCAL issues BANs and sells them to the Treasury periodically, based on cash needs. The Board authorized the issuance of an aggregate amount of BANs not to exceed \$50.50 million for the year ended June 30, 2014. As of June 30, 2014, the Pool had \$7 million invested in LACCAL BANs.

BANs are payable within five years of the purchase date. In addition, the BANs are issued with a formal agreement that, in the event they are not liquidated by the end of the five-year period, they convert to capital leases with a three-year term secured by County real property.

Los Angeles County Securities – Specific Purpose Investments (SPI)

The Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for \$5.17 million issued on December 2, 1997 with \$4.81 million outstanding at June 30, 2014. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement.

Note 6 – Interest Apportionment

Earnings realized on investments based on amortized cost are distributed to Pool participants and are calculated using the accrual basis of accounting. Section 27013 of the California Government Code authorizes the Treasury to deduct administrative fees related to investments. The net realized earnings on investments are apportioned by the Auditor-Controller to the Pool participants monthly, based on the participants' average daily cash balances. During the year ended June 30, 2014, the Pool apportioned \$147.82 million of investment earnings, compared to the previous year's apportionment of \$144.85 million.

LOS ANGELES COUNTY TREASURY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

Note 7 – Investment Pool Composition

As of June 30, 2014, the Investment Pool participants by percentage of net position consist of:

| Participant Allocation | |
|---|----------------|
| Consolidated School Districts | 51.62% |
| County of Los Angeles | 38.08% |
| County Bond Proceeds and Repayment Funds | 1.47% |
| Consolidated Sanitation Districts | 2.80% |
| South Coast Air Quality Management District | 2.42% |
| Metropolitan Transportation Authority | 0.84% |
| Other Municipal Agencies | 2.77% |
| Total | <u>100.00%</u> |

The School Districts and the Superior Courts are required by legal provisions to participate in the Pool. At June 30, 2014, the total percentage share of the Pool that relates to these participants in addition to Los Angeles County and related entities whose participation is required was 89.70%. Voluntary participants in the Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The total percentage share of the Pool for voluntary participants was 10.30% at June 30, 2014.



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Treasury's basic financial statements, and have issued our report thereon dated November 14, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Treasury's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of the Treasury's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Treasury's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Treasury's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Treasury's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Treasury's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Los Angeles, California
November 14, 2014

BCA Watson Rize LLP